

**NORTHUMBERLAND COUNTY COUNCIL PENSION FUND  
Pension Fund Panel Meeting 22 June 2018**

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**Extract from LGPS Scheme Advisory Board (SAB) website**

**Scheme Annual Report 2017**

**Chair's Statement**

On behalf of the Scheme Advisory Board I am delighted to be able to present the fifth Annual Report for the Local Government Pension Scheme (LGPS) in England and Wales. The LGPS is one of the largest defined benefit (DB) schemes in the world and is the largest DB scheme in England and Wales, with over 14,000 employers, 5.6m members and assets of £263bn.

The aim of this Annual Report is to provide a single source of information about the status of the LGPS for its members, employers, and other stakeholders. Continually improving key information about the Scheme as a whole is one of the top priorities of the Board. This report aggregates information supplied in the 90 fund annual reports, as at 31st March 2017.

To navigate the Annual Report, please use the menu to the right of this page, or the hyperlinks.

Here are some key LGPS highlights for 2017:

- The total membership of the LGPS grew by 394,000 (6.9%) to 5.6m members in 2017 from 5.2m in 2016.
- The total assets of the LGPS increased to £263bn (a change of 21.2%). These assets were invested in pooled investment vehicles (52%), public equities (32%), bonds (7%), direct property (3%), as well as other asset classes (6%).
- The Local Authority return on investment over 2016/2017 was 19.5%. This was reflective of the better market conditions during the year and set against the UK Return of 22%.
- The scheme maintained a positive cash-flow position overall. Scheme income was lower than total scheme outgoings by £484m; this was excluding investment income, however.
- The funds all received unqualified external financial audit certificates from the Scheme's external statutory auditors.
- Over 1.6m pensioners were paid over the year. Fewer than 39 formal complaints about scheme benefit administration were determined and less than 13% were upheld by the Pensions Ombudsman. Overall the LGPS has had relatively few upheld complaints.

As at the 31st March 2016, the LGPS liabilities were estimated at £254bn indicating an overall funding level of 85%. During 2016 the Board has been actively developing proposals to further tackle the estimated funding deficit of £37bn (£47bn in 2013) to improve the sustainability of the LGPS and its future funding levels. The next triennial valuation of the LGPS will be as at 31st March 2019.

As we move into the 2017/2018 reporting period, and the LGPS investment pools are being established, the Scheme Advisory Board are working with CIPFA and other stakeholders to ensure that the reporting of investments remains transparent at all levels within the Scheme.

I would be pleased to hear your views on this our fifth Annual Report (these should be sent to [Liam Robson](#)). The Board is keen to ensure we add to the Report and that the work underlying our compilation and analysis is ultimately recognised through UK, EU and global awards for excellence.

**Cllr Roger Phillips**

Chair of the LGPS Advisory Board  
22 May 2018

## **Some detail from the Scheme Annual Report 2017**

### **Funding**

In line with other UK public sector pension funds, the LGPS undergoes an actuarial valuation every three years. The last triennial valuation of the LGPS assets and liabilities (as at May 2018) was at 31st March 2016 (see below) and the next one will be as at 31st March 2019. The results will be made available on this website as soon as they are available.

### **2016 Actuarial Statement**

In line with the LGPS regulations, the funds' actuarial positions are reviewed every three years. The triennial valuation results shown in the 2017 Annual Report and Accounts were based on membership data and asset values as at 31st March 2016. These valuations set the employer contribution rates from 1st April 2017 to 31st March 2020, and were payable during the accounting period ended 31st March 2017. The 2013 valuations, using fund data at 31st March 2013 have set the contribution rates from 1st April 2014 to 31st April 2017, and have taken into consideration funding under the new benefit structure.

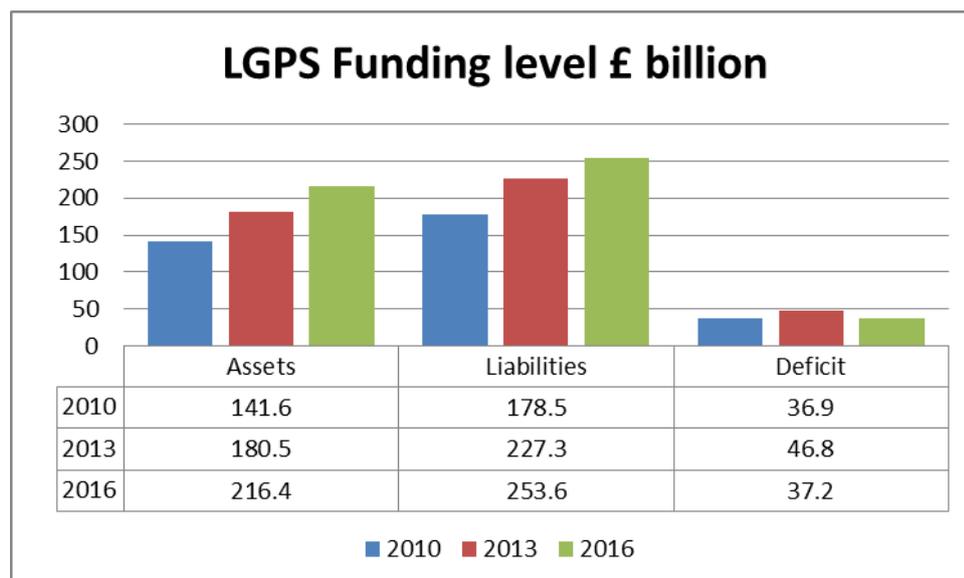
### **2016 Actuarial Valuation**

The 2016 valuation results are available and are included here for reference. The overall result of the 2016 valuation using LGPS fund data at 31st March 2016 with a comparison for 2013 is set out below. The 2016 valuation results were used to set contribution rates from 1st April 2017 to 31st March 2020. It is important to note that each fund will have used different assumptions, and whilst not directly comparable across funds, the aggregated total liabilities provides a prudent estimate for the scheme at the triennial valuation dates.

As at 31st March 2016, the total asset value of the Scheme was £216 billion, compared with £181 billion as at 31st March 2013. The liabilities totalled 254 billion in aggregate. The overall funding level was around 85%.

By way of comparison as at 31st March 2016, the funding level of the 5,945 direct benefit occupational pension schemes within the [Pension Protection Fund index](#) was 81.0% (on an insurance buyout basis, which is different from the LGPS actuarial valuation methodology). As at 31st March 2016 the University Superannuation Scheme funding level was 83%.

\*See valuation [2010](#), [2013](#) and [2016](#) pages for fund values used in calculations



### Development of LGPS funding position

Following the 2013 valuation, the Board published two summary reports. A **summary version** outlined the key findings of the 2013 valuations and provided some brief background. A **more detailed version** gives a fuller overview of the 2013 valuations and provided some wider context as to a) how employer contribution rates are calculated during valuations, and b) how individual fund valuations relate to the Board cost management process which will first be undertaken following 2016 results.

The Board produced similar reports for 2016, available on the Valuations pages

### Aggregated information

We have the following aggregated information from the annual report and audited accounts of the LGPS funds as at 31st March 2017 showing the development of the LGPS. Importantly, this notes that active membership increased and contribution payments continue to exceed benefit payments, which is consistent with the scheme remaining open to new entrants.

	2017	2016	2015	2014	2013
Number of actives (000)	1,964	1,899	1,905	1,819	1,728
Number of deferred (000)	2,078	1,859	1,834	1,723	1,621
Number of pensioners (000)	1,642	1,530	1,512	1,459	1,408
Total value of assets	£263bn	£217bn	£217bn	£192bn	£180bn
Net return on Investment	19.40%	0.10%	12.10%	5.90%	12.50%
Total contributions paid	£9.7bn	£9.3bn	£9.6bn	£8.7bn	£8.3bn
Total benefits paid	£9.7bn	£9.4bn	£9.0bn	£8.6bn	£8.2bn
Inflation (CPI) (change over previous 12 months to September)	1.00%	0.00%	1.20%	2.70%	2.20%

## Life Expectancy Index

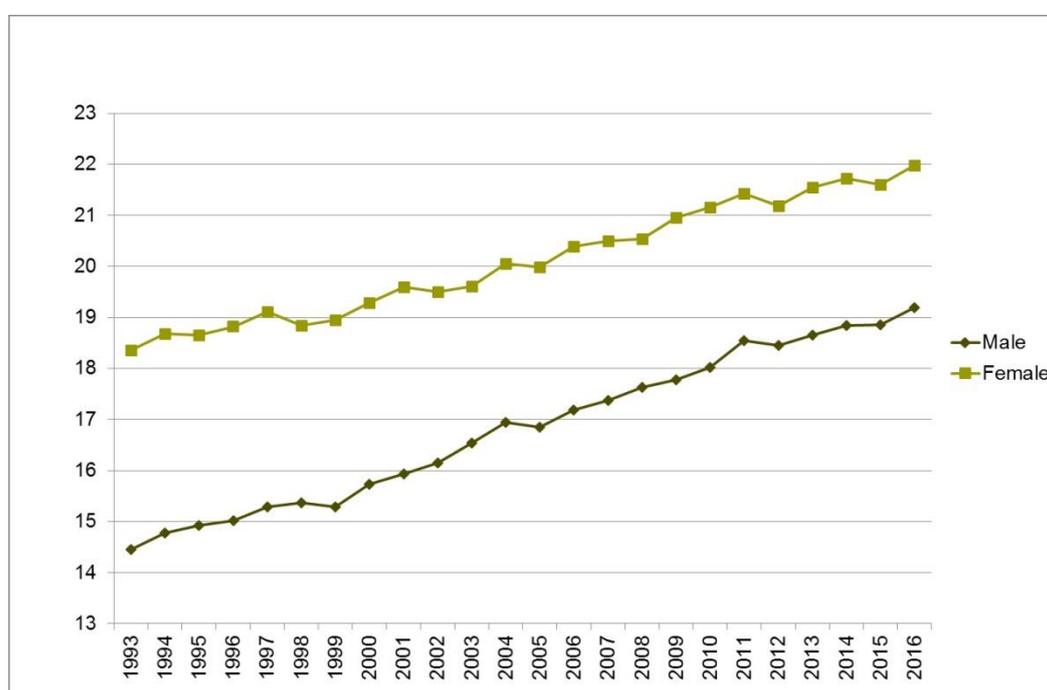
**Hymans Robertson** and **Club Vita** have developed an **LGPS Life Expectancy Index** to support the work of the LGPS Scheme Advisory Board. This Index will help support the communication of changing life expectancy in the LGPS to its scheme members. The Index will also provide the Board with longevity related information, including early warning of upwards cost pressures to support its role in the cost management process.

The information on this page is not specific to the circumstances of any particular reader or organisation, does not constitute advice, nor should it be relied upon by third parties. Life Expectancy Indices may also be produced by other organisations and use other sources of data.

### Changes in observed longevity

The chart below demonstrates the annual progression of the LGPS Life Expectancy Index between 1993 and 2016 for male and female E&W LGPS pensioners. It measures the number of years members are expected to live after reaching the age of 65.

**Years in retirement from age 65 (1993 - 2016)**



The average rate of increase in life expectancy is around 2.1 years per decade for males and around 1.6 years per decade for females, although it does not increase uniformly over the 23 year period.

### The beginning of a new trend?

Over the period to 2011 we have observed a significant and sustained increase in life expectancy. However, the period since 2011 has been characterised by more volatility and a general slowing in the rate of increase of life expectancy. Life expectancy is still improving, but not as quickly or as steadily as before.

Some of this volatility could be attributable to one-off events. During 2012/3 we experienced a harsh and sustained winter and during early 2015 it was found that

the flu vaccine had not been as effective as expected – both of these events lead to increased numbers of deaths, so slower increases in life expectancy. However, this higher level of deaths was sustained throughout 2015 and continued into 2016, resulting in an apparent ‘levelling off’ of life expectancy over the period since 2011. Overall, the typical period in retirement has only increased by around 0.6 years since 2011, whereas it increased by 2.5 years for males and 1.8 years for females over the previous decade.

This leads to the question of whether we are witnessing the beginning of a new trend and how long this will continue into the future. To better understand the drivers of this change, Club Vita has completed some research with the PLSA into how longevity trends are experienced in different socio-economic groups. The summary results for males are included in the table below.

Males	Annualised mortality improvement (age-standardised)		
	2000-2005	2005-2010	2010-2015
England & Wales (population data)	2.8%	2.8%	1.1%
Club Vita (pension scheme data)	2.4%	2.8%	1.3%
Comfortable	2.4%	2.1%	2.1%
Making-Do	2.2%	3.2%	0.9%
Hard-Pressed	2.5%	2.9%	1.0%

Source: PLSA and Club Vita (2017): Longevity trends – Does one size fit all?

Corresponding to the LGPS life expectancy index, the first two lines of the table show that mortality improvements have significantly decreased in the 2010-2015 period for both the population as a whole and for pension schemes represented in the Club Vita data set.

The bottom three lines show mortality improvements for the “Comfortable”, “Making-Do” and “Hard-Pressed” sub-groups of the data. Essentially, these groups divide the Club Vita data into high, medium and low socio-economic groups, broadly equal in size. The highest socio-economic group seems to have been resilient to whatever is effecting the general population, with sustained levels of improvements from 2000 to 2015. On the other hand, the lower socio-economic groups have experienced a significant drop in improvements in the 2010-2015 period.

What has caused this slowdown in life expectancy improvements? There are many theories, and the real answer will probably be a combination of many factors. Cause of death data indicates an increase in the number of deaths resulting from dementia (and related conditions) than would otherwise have been anticipated. Another common suggestion, supported by the difference in experience between different socio-economic groups, is that the slowdown has been the indirect result of the period of austerity being experienced by the UK.

### Consequences for LGPS Funds

What should LGPS Funds (and their Actuaries) do about this? They will typically take a longer term view, seeking to base their funding assumptions for longevity on a broader view of how longevity has been changing rather than reacting to the most recent experience alone. Understanding the socio-economic profile of the Fund also becomes important, together with a view on whether drivers of mortality improvements will affect different groups in different ways. If nothing else, recent experience should serve as a reminder that LGPS Funds (and their Actuaries)

should continue to monitor longevity trends and seek to better understand the drivers of changes in life expectancy.

### **Methodology**

The LGPS Life Expectancy Index tracks the life expectancy of E&W LGPS pensioners. The methodology ensures the index results are objective and reflect the experience of E&W LGPS members.

The index is based on period life expectancy from age 65. For each year this is a measure of how long you expect to make pension payments to an average member based on death rates in that year.

This approach to measuring life expectancy uses only observable, verifiable data (with data on circa 2/3rds of E&W LGPS pensioners used by the index) and avoids any need for subjective assumptions about how life expectancies will change in the future.

The index allows changes in life expectancy from year to year, and trends in life expectancy emerging over a number of years, to be clearly identifiable.

### **Reliances and Limitations**

- The life expectancy values shown in this chart have been provided by Club Vita to the Advisory Board for inclusion in the Scheme Annual Report. Whilst they can be reproduced, they should not be relied upon or used for any other purpose without the written permission of Club Vita LLP and Hymans Robertson LLP.
- Life expectancies are based on the experience of English and Welsh LGPS Funds that have provided data to Club Vita as at December 2017.
- The life expectancy shown for a particular year is the period life expectancy measured at age 65 - this is based on the exposure and deaths occurring during that year, so do not make any allowance for changes in longevity before or after that year.
- To be clear, the life expectancies shown have been calculated from the crude mortality rates of E&W LGPS pensioners.
- The life expectancy of an individual LGPS pensioner will depend on many factors, including age, gender, health, wealth, future changes in mortality, etc. and the figures shown here are not intended to represent or predict the life expectancy of any one individual member.

### **Appendix 1 Definition of Period expectation of life**

#### **Definition of Period Expectation of Life**

Source: Office for National Statistics, "Life expectancy at age 65 by local areas in the United Kingdom, 2004-06 and 2008-10", 19 October 2011

"Period expectation of life at a given age for an area in a given time period is an estimate of the average number of years a person of that age would survive if he or she experienced the particular area's age-specific mortality rates for that period throughout the rest of his or her life. The figures reflect mortality among those living

in an area in each time period, rather than mortality among those born in each area.” “Period life expectancy at age 65 in 2000 is worked out using the mortality rate for age 65 in 2000, for age 66 in 2000, for age 67 in 2000, and so on.” “Period life expectancies are a useful measure of mortality rates actually experienced over a given period, and for past years, provide an objective means of comparison of the trends in mortality over time, between areas of a country and between countries. Official life tables in the UK and other countries which relate to past years are generally period life tables for these reasons.”

Extract from Professional Pensions publication

23 May 2018

Re PLSA event

**The Local Government Pension Scheme (LGPS) had a markedly improved year in 2017 as high returns helped increase assets to £263bn as of March 2017.**

Published today, the Scheme Advisory Board's [fifth annual report](#) for the scheme in England and Wales said average returns of 19.5% net of fees were reflective of better market conditions during 2017 compared to the previous year.

It comes after a [challenging 2016 for the scheme, when it delivered poor returns of just 0.1% compared with 12.1% in 2015](#), and assets remained stagnant at £217bn, due to less favourable financial market conditions.

According to the 2017 report, there were relatively small changes in asset allocation between 2016 and 2017 as a result of differential market movements rather than cashflow, with equities rising in proportion as a result of strong results and property decreasing because of relatively lower returns.

Assets were invested in pooled investment vehicles (52%), public equities (32%), bonds (7%), direct property (3%), and other asset classes (6%).

The report also showed that in 2017 the membership grew to 5.6 million from 5.2 million in 2016. The proportion of active members grew by 3.3%, deferred pensioners by 10.5%, and pensioners by 6.8%.

The scheme maintained a positive cash-flow position overall, with contribution income increasing by £351m - £2.6m higher than benefit outgoings.

It comes after the March 2016 LGPS triennial valuation showed a £9.2bn fall in the overall actuarial deficit to £37bn from £46.8bn in March 2013.

Speaking at the Pensions and Lifetime Savings Association's (PLSA) Local Authority Conference 2018 on May 22, [the local government minister said](#) the deficit is "still significant" and therefore there is "no room for complacency".

The Scheme Advisory Board - a statutory body that advises the secretary of state - has been developing proposals to further tackle the funding deficit to improve the sustainability of the LGPS and its future funding.

However, the 2019 triennial valuation is expected to show a significant reduction in the deficit, with the overall funding level tipped to be much higher than the 85.3% recorded in the 2016 valuation, due to improved market conditions.

*PP* has looked at how **some LGPS funds are buying bespoke strategies** to shield improved funding levels from potential market falls ahead of their 2019 valuations.

It comes as the scheme's investments are **being pooled into eight structures** to deliver cost efficiencies and increase scale.